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MAJOR DEBTORS: PROBLEMS WITH THE IMF

Progress toward economic reform in major Latin debtor countries has slowed over the last few months, increasing the level of confrontation with the IMF and jeopardizing commercial bank credits which are in large measure predecated on compliance with the Fund's economic performance guidelines.

-- In Brazil, negotiations with the IMF broke down prior to the 15 March inauguration, and the illness of the President-elect Neves has prevented any meaningful moves toward developing an economic program since then.

-- Argentine President Alfonsin has failed to rein in government spending and wages, breaking an IMF agreement signed only late last year. In mid-March, the Fund stopped disbursement of new funds to Argentina.

-- Although Mexico was recently endorsed as in compliance with IMF guidelines, Mexican President De la Madrid, faced with tough parliamentary elections this July, is resisting suggestions from within the government to make deep federal spending cuts and hold the line on wages--moves that will be necessary to stay in compliance through 1985.

The implications of the difficulties in pushing economic reform and complying with IMF guidelines vary by country. Mexico poses the most immediate problem for US interests. A deteriorating economic situation coupled with a new standoff with the IMF could lead to a substantial peso devaluation followed by another economic downturn. Capital flight was estimated at 1.8 billion in January and February alone. Brazil, on the other hand, probably has the finances to go without new money in 1985. Continued IMF prodding as Neves (or his successor) unveils a new economic

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package might simply waste political capital both for the Fund and, by implication, Washington. As for Argentina, the banks and the IMF might well decide to keep Alfonsin cut off from new funds and accept the paper loan losses until he decides conditions have deteriorated to the point where reform and reconciliation with the Fund become necessary.

The common thread in each case is the potential for confrontation between the IMF and these major creditors. Last year Mexico was viewed as the model for a major bank rescheduling agreement. A program for economic reform was established with the Fund for reform followed by rescheduling and new money from private banks based on compliance with Fund guidelines on reform. When Mexico's high level of public spending becomes apparent later this year, the Fund, which also could still be negotiating with Brazil and Argentina, will either have to draw up some more lenient guidelines--a move Fund Director De Larossier would likely consider a personal defeat, or continue to push for programs that so far are politically unacceptable. Easier guidelines for Mexico would, of course, make it more difficult to negotiate meaningful reform with Brazil and Argentina.

For their part, private banks could be faced with a decision, at least in Brazil's case, to continue in partnership with the Fund or to distance themselves from the current system and begin to negotiate reschedulings on their own.

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